Canadian Pacific Limited

Annual Report 1979

1980 Annual General Meeting

The Annual General Meeting of the Shareholders is to be held on Wednesday, May 7th, 1980, at Le Château Champlain, Place du Canada, Montreal, at eleven a.m. (daylight saving time, if operative).

Board of Directors

*†W. J. Bennett, O.B.E., *Consultant,* Iron Ore Company of Canada, Montreal

*F. S. Burbidge, *President,* Canadian Pacific Limited, Montreal

Allan Findlay, Q.C., *Partner,* Law firm of Tilley, Carson & Findlay, Toronto

G. Arnold Hart, M.B.E., *Director and Former Chairman of the Board and Chief Executive Officer,* Bank of Montreal, Montreal

Allard Jiskoot, *Chairman of the Board of Managing Directors,* Pierson, Heldring & Pierson N. V., Amsterdam, The Netherlands

David Kinnear, *Vice-President and Director,* A. E. LePage Limited, Toronto

H. J. Lang, *Chairman of the Board,* Canron Inc., Toronto

Donald C. Matthews, *President and General Manager,* Highland Stock Farms Ltd., Calgary

*W. Earle McLaughlin, *Chairman of the Board,* The Royal Bank of Canada, Montreal

J. H. Moore, *Chairman of the Board,* John Labatt Limited, London, Ontario

*Paul L. Paré, *Chairman and Chief Executive Officer,* Imasco Limited, Montreal

The Rt. Hon. Lord Polwarth, T.D., D.L., *Director,* Bank of Scotland, Edinburgh, Scotland

*†Claude Pratte, Q.C., *Partner,* Law firm of Letourneau & Stein, Quebec

Lucien G. Rolland, *President and Chief Executive Officer,* Rolland inc., Montreal

A. M. Runciman, *President,* United Grain Growers Limited, Winnipeg

Thomas G. Rust, *President and Chief Executive Officer,* Crown Zellerbach Canada Limited, Vancouver

F. H. Sherman, *President and Chief Executive Officer,* Dominion Foundries and Steel, Limited, Hamilton

*Ian D. Sinclair, *Chairman and Chief Executive Officer,* Canadian Pacific Limited, Montreal

The Hon. John N. Turner, P.C., Q.C., *Partner,* Law firm of McMillan, Binch, Toronto

†Kenneth A. White, *Chairman, President and Chief Executive Officer,* Royal Trustco Limited, Toronto

*Ray D. Wolfe, *Chairman of the Board and President,* The Oshawa Group Limited, Toronto

*Member of the Executive Committee
†Member of the Audit Committee

Officers

Ian D. Sinclair, *Chairman and Chief Executive Officer,* Montreal

F. S. Burbidge, *President,* Montreal

Corporate Services

J. C. Ames, *Vice-President and Secretary,* Montreal

J. P. T. Clough, *Vice-President Finance and Accounting,* Montreal

Donald S. Maxwell, Q.C., *Vice-President Law and General Counsel,* Montreal

J. A. McDonald, *Vice-President Corporate Development,* Montreal

R. T. Riley, *Vice-President Administration,* Montreal

J. F. Hankinson, *Comptroller,* Montreal

D. E. Sloan, *Treasurer,* Toronto

To the Shareholders

The year 1979 was one of significant achievement for the Company on many fronts. Consolidated net income exceeded the half-billion dollar mark for the first time, amounting to $508.1 million, or $7.06 per Ordinary share. Earnings of rail operations, in both Canada and the United States, of ocean shipping, of telecommunications, and of many of the resource and manufacturing activities of Canadian Pacific Investments Limited set new records. Dividends on the Ordinary stock, at $1.70 per share, were the highest the Company has ever paid. Total assets reached $11.0 billion, breaking through the $10 billion level for the first time and capital spending, at $1.2 billion, was over the $1 billion mark.

Capital expenditures of the Canadian Pacific group planned for 1980 total $1.5 billion. Some of the increase over 1979 is accounted for by inflation, but the bulk of it represents additional spending to expand or improve the productive capabilities of the various enterprises. Financing the program is made easier by the availability of funds retained for reinvestment out of 1979 earnings. Thus improved levels of earnings encourage new investment and at the same time can provide some of the capital needed to undertake it.

Although the incentive for making new investment is the prospect of increasing a company's earnings, shareholders are not the only ones who stand to benefit from capital spending. The wider community also benefits — from direct and indirect job creation for one thing, and ultimately higher tax revenues for another. Considerations of this nature, and of the shortcomings of normal depreciation practices in periods of rising costs, are the basis for tax incentives introduced by governments to encourage investment. Without such incentives, new investment would be curtailed.

The successes of the year stand out in marked contrast to the strains and uncertainties in the economic environment. 1979 was a year of escalating oil prices and, in the United States, of gasoline shortages — experienced and threatened. As a result, new car sales suffered. It was also a year of record high interest rates, as central bankers moved to curb resurgent inflation. One victim of the soaring rates was new residential construction. Despite all this, there was sufficient underlying strength to keep both the U.S. and Canadian economies growing, and to provide, in many instances, highly favourable market opportunities for those prepared to use them.

Among the Company's transportation businesses, such opportunities favoured principally rail and tanker/bulk shipping. Airline results were lower than in 1978 because the unusually favourable circumstances of that year were not repeated, but primarily because rising costs in 1979, especially for fuel, outpaced increases in passenger traffic and yields. Trucks incurred a loss in 1979 as a result of labour disruptions.

The fields of transportation and communication are well-known for the extent of government involvement in them — through regulation or even through ownership and operation. During 1979 there were two encouraging developments in the direction of allowing greater scope for competition in these fields. One was the removal by the Federal Government of capacity restrictions on CP Air transcontinental services. The other was the granting by the Canadian Radio-television and Telecommunications Commission, later upheld by the Cabinet, of the right of CNCP Telecommunications to inter-connect with the facilities of Bell Canada. These decisions are doubly welcome — for themselves, and for the encouragement they give to hopes that the marketplace will be given more of a chance to play its vital role.

The Company's income from CP Investments also reflected strong markets for products of many of its resource and manufacturing activities. The largest income gains over 1978 were from metal mining, forest products and iron and steel operations, but most other segments of CPI showed improvement as well. As a result of the public issue by CP Investments of 5,250,000 additional common shares during the year, the ownership of CP Limited was reduced from 82.4% to 75.8% of CPI's common stock.

Present indications are that positive influences on 1980 earnings will outweigh negative ones. Favourable factors include the prospect that resource-based growth in Western Canada will continue at a high rate. One major area of uncertainty concerns the price and availability of fuel, which could have an important bearing on transportation operations, particularly CP Air.

The achievement of the outstanding results of 1979 owes much to the support of customers and the effective work of officers and employees. To both groups, the Directors express sincere appreciation.

For the Directors,

President

Chairman and Chief Executive Officer

Montreal, March 10, 1980.

Summarized Statement of Income of Canadian Pacific Limited

	1979	1978	Increase or (Decrease)
	(in millions)		
Net income from:			
CP Rail	**$ 93.7**	$ 63.5	$ 30.2
CP Trucks	**(1.9)**	2.2	(4.1)
CP Telecommunications	**6.0**	3.0	3.0
CP Air	**13.1**	20.0	(6.9)
CP Ships	**26.3**	(8.7)	35.0
Soo Line Railroad Company	**17.8**	14.8	3.0
Miscellaneous	**18.6**	20.5	(1.9)
CP Investments Limited	**334.5**	234.5*	100.0
Net income	**$508.1**	$349.8	$158.3
Per Ordinary share:			
Net income	**$7.06**	$4.85	$2.21
Dividends	**1.70**	1.10	0.60

*Restated

CP Rail

Net income from CP Rail amounted to $93.7 million, up $30.2 million, or 48%, over 1978. A record volume of freight carried and improved prices were the major contributing factors to an increase in revenues of $190.6 million, or 13%. Growth was particularly significant in revenues from coal, piggyback, potash, iron and steel and sulphur. Government payments were down, and passenger revenues up, as VIA Rail Canada took over responsibility for inter-city passenger operations. Rail expenses rose $160.4 million, or 12%, reflecting mainly continued escalation of wage rates, pension costs and material and fuel prices. By year end the price of fuel was 20% above the 1978 year-end price.

Although railways are more fuel-efficient than competing freight carriers, steep rises in fuel prices and uncertainties with regard to fuel supplies have posed new challenges to reduce fuel consumption. CP Rail launched an energy conservation program in 1977, which has already achieved savings through improved fuel handling, reduction in locomotive idling time, and improvement in the efficiency of operation of buildings and equipment. The program aims not only to hold these gains but to find additional ways to save fuel.

CP Rail's losses in 1979 on the movement of Western Canadian grain to export positions exceeded $100 million, on a variable cost basis. While there appears to be widespread realization that non-compensatory rail rates are a hindrance to the development of a more efficient grain transportation system, no definitive action has yet been taken to deal with this crucial rate problem.

Following a public hearing, the Canadian Transport Commission ruled favourably on an application by CP Rail to have income tax included as an element of the cost of capital for all purposes of the Railway Act. This is significant principally in determining the amounts of compensation the government pays for services that are uneconomic, but considered necessary in the public interest. The effect of the Commission's decision was to add some $11 million to the year's revenues.

CP Rail's capital spending program for 1980 exceeds $200 million. It provides substantial amounts for installation of new rail and ties and replacement of bridges; it does not include costs of Prairie branch line rehabilitation that are reimbursed by the Federal Government. The 1980 program also provides for construction of additional trackage on the high-density main line between Calgary and Vancouver. Operation over new, second tracks at two locations began late in 1979, and will begin over the third section — between Lake Louise and Stephen — by the end of 1980.

Intermodal terminal facilities at Vancouver were constructed during the year to serve the new domestic containerization project. Containers and loading and carrying equipment for this service were purchased in 1979 and additional containers have been ordered for 1980. The program for acquisition of other equipment this year and next includes high-cube covered hoppers, mainly for potash and fertilizer, flat cars for steel, gondolas for export coal, newsprint cars — all a part of CP Rail's strategic planning for expected increases in exports of resource commodities during the 1980's and for improving market share in profitable areas.

CP Trucks

CP Transport Company, Limited had a difficult year in 1979. Largely as a result of a series of labour disruptions, it incurred a loss of $2.7 million, which compares with a profit of $1.5 million earned in 1978. Results of the Express division were severely affected by a strike which shut down operations for six weeks during the third quarter, and by a slow return of business after the strike ended. This strike also interfered with normal trucking and piggyback operations. CanPar, the parcel delivery service, had labour problems in the second quarter, and about the same time the Trucking division suffered from a 10-day work stoppage by Teamsters in the United States.

The re-hearing of an application by a parcel trucking company based in the United States to obtain operating rights in Canada convened early in 1980. CP Transport will continue to oppose the application.

CanPac International Freight Services Inc., whose results were formerly reported under CP Ships, had earnings of $845,000 in 1979, up from $623,000 in 1978. This improvement is largely attributable to the customs brokerage and freight forwarding division.

CP Telecommunications

Net income from telecommunications in 1979 amounted to $6.0 million, up significantly from the $3.0 million reported for the preceding year. Revenues increased $11.8 million, primarily as a result of volume growth in Telex and Leased services, but also because of improved rates. Higher costs for wages and benefits, and for leased facilities accounted for the major portion of the increase of $8.8 million in expenses.

During the year CNCP Telecommunications was successful in gaining the right to inter-connect its facilities with those of Bell Canada.

Infoswitch, a switched digital data service introduced in 1978, became better known and more widely used in 1979. Infotex, a new service for automated office communications, was announced during the year; it will be available commercially in 1981.

In recognition of the efficiencies that could be realized from integration of CP and CN telecommunication operations, a single management was established on September 1, 1979. Negotiations have been completed for implementation of a full partnership arrangement in 1980.

CP Air

Net income from CP Air amounted to $13.1 million, down $6.9 million from 1978. Dividends on the outstanding preference shares amounted to $3.2 million, compared with $874,000 in 1978. There were no dividends declared on the ordinary stock in 1979, as funds were needed for capital expenditures.

Revenues increased $80.6 million, or 17%, over 1978, reflecting mostly greater passenger traffic. There was only a minor increase in passenger yields. Traffic during the year benefited somewhat from strikes and service disruptions at competing airlines.

Despite strict cost control efforts, expenses rose $85.2 million, or 19%. This was attributable not only to the increase in flying operations, but also to continued escalation of costs, especially for labour and fuel. The price of jet fuel soared in 1979, more than doubling at most international locations. As the cost of fuel represents a growing portion of the company's expenses and as even the availability of supplies is becoming a problem, redoubled efforts are being made to maximize fuel efficiencies. These cover a wide range — from reduced air speed to increased use of simulators for pilot training.

In March 1979 the Federal Government announced the elimination of capacity restrictions on CP Air transcontinental services. Prior to that, CP Air had been limited to supplying approximately 25% of capacity offered on the transcontinental route. The new policy ended a long campaign by the company to secure the right to operate competitively with Air Canada. Early in 1980 CP Air's application for the right to consolidate some of its five domestic licenses under one license was approved. This favourable decision will allow greater flexibility in serving the market. CP Air is awaiting a decision on an application filed in 1979 to add Halifax to its transcontinental license.

Traffic on CP Air's transcontinental route increased 23% during the year. In addition to continuing many of its innovative marketing programs introduced on this route in 1978, the airline also added new services in 1979. These included the "no-frills" SkyBus flights introduced between most major cities across Canada, non-stop scheduled flights between Ottawa and Vancouver, and additional service between Eastern Canada and Calgary, Edmonton and Winnipeg. This latter is of significance in increasing CP Air's presence in the Prairie market.

In order to achieve projected traffic growth on existing routes and to introduce more aircraft that are both cost and fuel efficient, CP Air announced a major capital expansion program during the year. By year end, the company had arrangements to acquire fifteen new aircraft at a cost exceeding $500 million, for delivery over the next four years. Included in the program are three DC-10-30 aircraft and eight Boeing 737's to be delivered in the period 1980-1981 and four Boeing 767's to be delivered in 1983. During 1979 CP Air took delivery of three DC-10-30's, of which two were leased out for a one-year period, and three Boeing 737's, bringing the fleet to thirty aircraft at year end.

A copy of the 1979 financial statements of CP Air can be obtained by writing to its Secretary at Vancouver International Airport, One Grant McConachie Way, Vancouver, B.C. V7B 1V1.

CP Ships

CP Ships earned $26.3 million, compared with a loss of $8.7 million incurred in 1978. The marked improvement was attributable mainly to CP (Bermuda).

CP (Bermuda) had earnings of $25.1 million, up from a loss of $8.2 million in 1978. This turnaround reflected continuation throughout 1979 of the improvement in markets, especially for product tankers, that began in the fall of 1978 after five years of record depressed conditions. Growth in world seaborne trade was not enough, by itself, to produce an upturn; the main contributing factor was more prudent investment decisions by ship owners, as indicated by higher scrap volumes and restraint in new ship orders. CP (Bermuda)'s return to profitability was largely achieved by its flexible chartering policy which avoided fixing vessels on long term charters while markets were depressed.

In line with ongoing appraisal of its fleet, CP (Bermuda) sold two 29,000-ton bulk lumber carriers early in 1979 and late in the year purchased a second-hand 54,000-ton dry bulk carrier. Four sophisticated 30,000-ton product tankers were ordered, three of which are scheduled for delivery during 1980 and the fourth in 1981.

Despite uncertainties surrounding oil supplies and prices, the tanker market is expected to be generally favourable in 1980. Substantial tonnage is involved in oil storage programs, and obsolescence should result in further reduction of excess tanker capacity. Prospects are encouraging for dry bulk carriers in view of demand for shipping from the world steel industry and for grain movements, and the growing importance of thermal coal as a source of energy.

CP Steamships, Limited had net income of $1.2 million, compared with a loss of $486,000 in 1978. The improvement was chiefly the result of increased container carryings and recovery in freight rates from the depressed levels of 1978. Container carryings were up almost 11%. This reflected the improved competitive position of North American exports and additional capacity provided by the charter of vessels for a number of voyages. The year's earnings also benefited from substantial cost reductions arising from the relocation late in 1978 of container facilities from Quebec City to Montreal.

Early in 1980 CP Steamships began operation of a chartered container vessel in addition to its owned fleet of three ships. Hamburg, West Germany, became a port of call for all four vessels. The fourth ship enables the company to increase frequency and quality of service; extending service to Hamburg provides access to markets which have a high potential for growth.

Soo Line Railroad Company

Soo Line Railroad, which operates in the midwestern United States and has direct connections with CP Rail's lines, is owned 55.7% by CP Limited. Soo's earnings reached a new peak in 1979. The Company's share of its earnings amounted to $17.8 million, up from $14.8 million in 1978.

Soo's higher earnings were achieved in spite of weather conditions which adversely affected freight volume and operating expenses in the first half of the year, and a strike by grain handlers at Great Lakes ports which reduced grain shipments in the third quarter. Soo's revenues were up principally because of freight rate increases.

Miscellaneous Income

Miscellaneous income, consisting principally of interest, exchange and net proceeds from sales of properties, amounted to $18.6 million, compared with $20.5 million in 1978. The reduction reflected mainly a decrease in gains on sales of properties, partially offset by an increase in interest income.

CP Investments Limited

Net income from CP Investments amounted to $334.5 million, up $100.0 million from restated income of $234.5 million for 1978.

Summarized Statement of Net Income from CP Investments Limited

	1979	1978	Increase or (Decrease)
	(in millions)		
Oil and gas	**$144.4**	$135.8*	$ 8.6
Mines and minerals	**120.1**	44.1	76.0
Forest products	**47.7**	18.3	29.4
Iron and steel	**69.8**	46.7	23.1
Real estate	**19.2**	15.3	3.9
Hotels and food services	**0.9**	(15.0)	15.9
Finance	**0.1**	2.7	(2.6)
Other operations	**9.2**	7.4	1.8
Investment income	**8.9**	29.4	(20.5)
	420.3	284.7	135.6
Interest of outside CPI shareholders	**85.8**	50.2	35.6
Net income to CP Limited	**$334.5**	$234.5	$100.0

*Restated

Oil and Gas

PanCanadian Petroleum Limited had a 6% growth in earnings, attributable to the combination of increased product prices and greater production. Exploration activities in 1979 included drilling around the Grande Prairie area of the Deep Basin in Alberta, where PanCanadian has built up a good acreage position. By year end oil was being produced from several wells in this area. Elsewhere in Alberta additional reserves of both oil and gas were proven. In northeastern British Columbia PanCanadian completed two oil wells and in Eastern Canada it is participating in offshore drilling activities. Outside Canada PanCanadian participated in the drilling of oil and gas wells in the United States, continued exploration offshore Australia and in the North Sea, and took part in seismic exploration in the South China Sea. During 1979 PanCanadian's interest in the Syncrude project was reduced from 5% to 4% upon the exercise by the Alberta Energy Company Ltd. of its option to acquire a 20% share in the project.

Mines and Minerals

Cominco Ltd. more than tripled its earnings in 1979. Income of CP Investments from its 53.7% share in Cominco amounted to $109.1 million, compared with $30.2 million in 1978. The marked increase reflected mainly strong demand and improved prices for metals generally, but notably for gold, silver, lead and tin. Although zinc prices were above those of 1978, demand weakened during the third quarter of 1979 and production of zinc was reduced accordingly. An additional factor that benefited earnings was the prevailing relationship between Canadian and U.S. dollars. Sales volumes of chemical and fertilizer products and of potash were steady during the year and prices improved. Cominco's potash operation was profitable in 1979 as a result of an agreement with the Province of Saskatchewan providing for some reduction in the level of resource taxation.

Fording Coal Limited, owned 60% by CP Investments and 40% by Cominco, had earnings of $14.2 million for the year, down from $19.5 million in 1978. In addition to its direct share of these earnings and its equity in Cominco's share, CPI received ownership payments from Fording amounting, after tax, to $2.5 million, compared with $1.8 million in 1978. Despite somewhat higher coal sales, Fording's income was lower chiefly because selling prices remained unchanged and labour, material and maintenance costs were higher. Fording recently announced a program to expand production capability at its mine in southeastern British Columbia from three to five million tons per year.

Forest Products

Great Lakes Forest Products Limited had record earnings in 1979. CPI's share of these, representing a 54% interest, amounted to $26.8 million, up from $11.3 million in 1978. This substantial growth was the product of better prices for newsprint and kraft pulp, increased shipments of all products and the effect of a higher U.S. dollar exchange premium over the Canadian dollar. Late in 1979 Great Lakes purchased the pulp and paper operations of Reed Ltd. in Dryden, Ontario.

Pacific Logging Company Limited had a successful year in 1979, with earnings reaching $20.6 million, up sharply from $7.3 million in 1978. This achievement reflected better prices for logs and lumber and a higher volume of lumber sales. Pacific Logging acquired a logging company in British Columbia in 1979, and early in 1980 a subsidiary opened a new sawmill.

Iron and Steel
The Algoma Steel Corporation, Limited achieved record earnings in 1979, and CPI's 55% share of these amounted to $54.4 million, compared with $36.8 million in 1978. Demand was strong during the year for almost all of Algoma's major steel products, and earnings benefited from increased selling prices and greater product shipments. Algoma's equity interest in Dominion Bridge Company, Limited continued to make a significant contribution to earnings. During the year Algoma brought into production a new continuous slab casting facility, completed the fourth stage of development of an iron mine in northern Ontario, and started operation of new heat treat facilities for seamless tubes. Construction is progressing on new facilities for heat treating plate, with operation scheduled to begin by early 1981. Work was begun to increase capacity in the rail and structural mill, and on renovating and upgrading the wide strip mill.

In addition to its interest in Algoma's 43.1% share of the income of Dominion Bridge Company, Limited, CPI has a 9.5% direct holding which accounted for $5.9 million of net income, up $1.3 million over 1978. The increase was principally due to Bridge's higher earnings, but also to purchases by CPI during the year of additional Bridge shares.

Steep Rock Iron Mines Limited, 77.1% owned by CPI, had higher earnings due largely to a gain on sale of equipment, following termination of operations at Atikokan during the year. CPI's share of Steep Rock's earnings amounted to $9.6 million, compared with $5.4 million in 1978.

Real Estate
Marathon Realty Company Limited had record earnings in 1979, reflecting increased contributions from all sectors of its operations. During the year Marathon completed an office building in San Francisco and one in Toronto, and opened a shopping centre near Ottawa. Projects currently under way include construction of office buildings in Toronto, Calgary, Burnaby, B.C. and Portland, Oregon, a retail complex in Kitchener, Ontario and the interior redevelopment of the former CP Rail station in Vancouver. In December Marathon acquired Canadian Freehold Properties Ltd., a Vancouver-based company with a portfolio of office and industrial buildings and development sites across Canada and along the U.S. west coast.

Hotels and Food Services
Canadian Pacific Hotels Limited made a substantial recovery in 1979, with earnings of $868,000, compared with a loss of $15.0 million in 1978. This improvement was attributable to an upturn in the hospitality industry and to substantially smaller write-offs than in 1978 relating to development projects undertaken previously. During the year the new Chateau Airport Hotel and adjoining flight kitchen at Calgary's International Airport were opened. Construction progressed on the Franklin Plaza Hotel in Philadelphia, which CP Hotels is to manage when it is completed in the fall of 1980.

Finance
Chateau Insurance Company accounted for the lower income from the Finance group, due to continued severe competition and high claim losses.

Other Operations
Results in 1979 of the Canellus International group of companies include earnings from new acquisitions. Baker Commodities, Inc., based in Los Angeles, acquired Corenco Corporation, a company engaged in rendering and fruit processing, and a newly formed subsidiary, Processed Minerals Incorporated, based in Delaware, purchased the Carey Salt and wollastonite divisions of Interpace Corporation.

Investment Income
Investment income was down substantially from 1978, when a net gain of $23.8 million was included from the sale of CPI's 12% interest in TransCanada PipeLines Limited.

A copy of the 1979 annual report of Canadian Pacific Investments Limited can be obtained by writing to the Secretary of that company at Suite 1900, Place du Canada, Montreal, Quebec H3B 2N2.

Directorate

At the Annual General Meeting of the Shareholders held on May 2, 1979, the Board of Directors was reduced from 22 to 21 members and Mr. Keith Campbell did not stand for re-election. The Board desires to record its appreciation of the notable contribution made by Mr. Campbell during his tenure as a Director of the Company.

Summary of Significant Accounting Policies

General

Basic financial reporting and consolidation policy

Canadian Pacific Limited (CPL) carries on transportation and related enterprises directly and through subsidiaries, in Canada and internationally. CPL also holds 50,000,000 common shares of Canadian Pacific Investments Limited (CPI). This holding represented 75.81% of total CPI common shares and 75.77% of total voting shares at December 31, 1979 (82.37% and 82.31%, respectively, at December 31, 1978). CPI, through various subsidiary companies, carries on development of extensive natural resource properties and engages in manufacturing and other activities in Canada and abroad.

The financial statements of all subsidiary companies are included in the consolidated financial statements of CPL. Prior to a recent change in Canadian reporting requirements for regulated industries, the Soo Line Railroad Company (Soo) was accounted for on the equity basis. For comparability, figures for 1978 have been restated.

The statement of consolidated income on page 11 is designed to present clearly CPL's income from its transportation related activities and from its holding in CPI. Income from transportation is segregated between the major functions — rail, trucks, telecommunications, air, ships and Soo Line Railroad Company. A breakdown of income by function for the operations carried on by CPI is presented on page 16. The significant accounting policies of each group are described below, and should be read in conjunction with the financial statements, the other financial information and the notes to consolidated financial statements.

Foreign exchange

Current assets and current liabilities have been translated from foreign currencies into Canadian dollars at current rates. Fixed assets, related depreciation, depletion and amortization and long term debt (excluding the current portion) have been translated at historical rates. Revenues and expenses (except depreciation, depletion and amortization which are translated at historical rates) have been translated at average rates in effect during the year. Gains or losses on exchange are included in or charged to income.

Pensions

In addition to current service costs, charges to income include annual payments on account of past service liabilities. Such liabilities are being funded over varying periods to 2027.

Income taxes

The companies follow the tax allocation basis of accounting for income taxes, whereby tax provisions are based on accounting income and taxes relating to timing differences between accounting and taxable income are deferred.

Transportation

Income reporting by function

CPL operates its various transportation enterprises as separate profit centres. CP Rail, comprising railway and coastal steamship operations, and CP Telecommunications, are departments of CPL. CP Trucks (Canadian Pacific Transport Company, Limited and CanPac International Freight Services Inc.), CP Air (Canadian Pacific Air Lines, Limited) and CP Ships (Canadian Pacific Steamships, Limited and Canadian Pacific (Bermuda) Limited) are operated through wholly-owned subsidiary companies; the Soo Line Railroad Company is 55.69% owned.

In order to present fairly the results by profit centre, charges for services performed by one profit centre for another, which are made at normal tariff or other arm's length rates, are not eliminated. Consolidated net income is not affected by this practice. CPL's rent for leased railroads and interest on consolidated debenture stock are assigned to CP Rail, while other interest paid by CPL is allocated to CP Rail, CP Telecommunications and Miscellaneous income as appropriate. Interest paid by other transportation companies is charged to their respective profit centres.

CPL's income taxes are allocated to CP Rail, CP Telecommunications and Miscellaneous income on the basis of accounting income as adjusted for non-taxable items. Taxes of other transportation companies are charged to their respective profit centres.

Properties

Maintenance and repairs are charged to expenses as incurred. Major additions and replacements generally are capitalized with the exception of the following which are charged to expenses:

1. Labour costs relating to track structure replacements.
2. Renewals of parts of units of railway property which do not constitute "major renewals" as defined by the Uniform Classification of Accounts for Class 1 Common Carriers by Railway of the Canadian Transport Commission.

Depreciation

Depreciation is calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property. For railway properties, the rates used by CP Rail are as authorized by the Canadian Transport Commission and by the Interstate Commerce Commission for the Soo; for telecommunications properties, the rates used are as authorized by the Canadian Radio-television and Telecommunications Commission. When depreciable property is retired or otherwise disposed of, the book value, less net salvage, is charged to accumulated depreciation.

Estimated service lives used for principal categories of assets are as follows:

Road diesel locomotives	20 years
Railway freight cars	30 years
Ships	20 to 25 years
Aircraft	14 to 15 years
Telecommunications equipment	7 to 22 years
Trucks	8 to 12 years

Canadian Pacific Investments Limited

Income reporting by function

The financial statements of all subsidiary companies are consolidated in the financial statements of Canadian Pacific Investments Limited (CPI). Classes of business based upon the major activities of significant subsidiaries and the principal subsidiaries included in each class are as follows:

		Percentage ownership by CPI
Oil and gas	PanCanadian Petroleum Limited	87.08%
Mines and minerals	Cominco Ltd.	53.75%
	Fording Coal Limited	60% CPI and 40% Cominco
Forest products	Pacific Logging Company Limited	100%
	Great Lakes Forest Products Limited	54.01%
	Commandant Properties, Limited	100%
Iron and steel	The Algoma Steel Corporation, Limited	54.97%
	Steep Rock Iron Mines Limited	77.11%
	Dominion Bridge Company, Limited	9.46% CPI and 43.15% Algoma
Real estate	Marathon Realty Company Limited	100%
Hotels and food services	Canadian Pacific Hotels Limited	100%
Finance	Canadian Pacific Securities Limited	100%
	Chateau Insurance Company	99.96%
Other operations	Canellus International N.V.	100%
	Rothsay Concentrates Co. Limited	100%

Algoma Steel supplies structural steel and plate to Dominion Bridge, and until the cessation of its mining and pelletizing operation, Steep Rock supplied iron ore pellets to Algoma. In reporting the results of Iron and Steel operations in the analysis of CPI's operations on page 16, the following amounts have been eliminated from sales and operating revenue and from expenses: 1979, $71,920,000; 1978, $63,920,000. Inter-company interest charges, amounting to $35,084,000 in 1979 and $29,310,000 in 1978, have not been eliminated in the analysis of CPI's operations in order to present fairly the results by activity. CPI's net income is not affected by these practices. Interest has been eliminated from CPI's revenues and expenses in the CPL Statement of Consolidated Income on page 11. There are no other significant inter-company charges within the CPI group of companies.

Inventories

Products, work in progress and raw materials of mining operations are valued generally at the lower of cost (determined on the monthly average method) and net realizable value. Supplies are valued at cost less appropriate allowances for obsolescence.

Finished products of Iron and Steel and work in progress related to steel making operations are valued at the lower of cost and net realizable value. Work in progress related to construction contracts is stated at accumulated production costs less amounts charged to income based on the percentage of completion of individual contracts. Raw materials and supplies are valued at the lower of cost and replacement cost.

Other inventories (principally related to Forest Products and Other Operations) are valued at the lower of cost (generally average cost) and net realizable value.

Accounting for oil and gas properties

The full cost method of accounting is followed for oil and gas properties, whereby all costs related to the exploration for and the development of oil and gas reserves are capitalized. Such costs are depleted by the unit of production method based on estimated proven oil and gas reserves.

Accounting for mining properties

Expenditures on general mineral exploration are charged against earnings as incurred. Expenditures to investigate identified properties and to develop new mines are capitalized as mineral properties and development. Because of the uncertainty of the final outcome, expenditures on investigation, together with the cost of certain investments in mineral companies, are amortized against earnings by charges for depletion. Abandoned properties are written off in the year of abandonment. Depletion on operating mines is provided on a unit of production or on a time basis based on the mineral reserves position.

Accounting for iron and steel properties

Depreciation of manufacturing plant and equipment is provided on the straight-line basis at rates intended to amortize the cost of these assets over their estimated economic lives. Mining equipment, mine development and deferred overburden removal costs are amortized on a unit of production basis over the estimated recoverable iron ore and coal reserves.

Expenditures on exploration for, investigation of, and holding, raw material properties, and costs of research and start-up of new production facilities, are charged to earnings as incurred.

Interest incurred on funds borrowed directly to finance the development of new raw material properties is capitalized during the period of construction and initial development. Such interest is included in the charge to earnings for depreciation and amortization when production commences in commercial quantities.

Accounting for real estate properties

All operating and carrying costs net of rental revenues are capitalized for all income producing properties until a satisfactory level of occupancy is obtained, subject to a reasonable maximum period of time.

Land under development and held for development is carried at cost, including carrying costs, principally real estate taxes and interest.

Buildings and construction in progress are carried at cost including real estate taxes, interest and initial leasing costs. The sinking fund method of providing depreciation is used for the majority of buildings. This method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually.

Accounting for other properties

Depreciation and amortization of other properties are charged to earnings, generally on the straight-line basis, over the estimated economic lives of the facilities involved.

Interest on debt incurred to finance major expansion programs under Forest Products and Hotels and Food Services is capitalized during the construction period.

Statement of Consolidated Income

For the Year ended December 31	1979	1978
	(in thousands)	
CP Rail		
Revenues (Page 17)	**$1,619,031**	$1,428,435
Expenses including income taxes	**1,525,378**	1,364,945
Net income	**93,653**	63,490
CP Trucks		
Revenues	**211,725**	208,085
Expenses including income taxes	**213,586**	205,927
Net income	**(1,861)**	2,158
CP Telecommunications		
Revenues	**98,215**	86,416
Expenses including income taxes	**92,210**	83,437
Net income	**6,005**	2,979
CP Air		
Revenues	**555,417**	474,800
Expenses including income taxes	**539,083**	453,928
	16,334	20,872
Preference dividend	**3,214**	874
Net income	**13,120**	19,998
CP Ships		
Revenues	**255,645**	177,070
Expenses including income taxes	**229,325**	185,724
Net income	**26,320**	(8,654)
Soo Line Railroad Company		
Revenues	**349,694**	293,015
Expenses including income taxes	**317,734**	266,412
	31,960	26,603
Minority interest	**14,161**	11,788
Net income	**17,799**	14,815
Miscellaneous		
Net income	**18,611**	20,466
CP Investments Limited *(Page 16)*		
Revenues	**5,297,895**	4,247,373
Expenses including income taxes	**4,625,019**	3,827,817
	672,876	419,556
Minority interest	**338,381**	185,022
Net income	**334,495**	234,534
Net Income	**$ 508,142**	$ 349,786
Earnings per Ordinary Share	**$7.06**	$4.85

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements.

Statement of Consolidated Retained Income

For the Year ended December 31	1979	1978
	(in thousands)	
Balance, January 1		
As previously reported	**$1,925,191**	$1,665,679
Prior period adjustment to give effect to retroactive income tax regulation amendments providing for accelerated deduction of earned depletion of a subsidiary (Page 22)	**8,916**	—
As restated	**1,934,107**	1,665,679
Net income for the year	**508,142**	349,786
Gain arising from net increase in shareholders' equity of a subsidiary due to the issuance of common shares	**12,687**	—
	2,454,936	2,015,465
Commission, expense and discount relating to issuance and cancellation of preferred shares and issuance of common shares by subsidiary companies		
Preferred shares	**(11)**	104
Common shares — net of income tax of $3,495,000 and minority interest of $915,000	**2,872**	—
Dividends		
7¼% Preferred shares	**1,650**	1,887
4% Preference stock	**549**	539
Ordinary stock (per share — 1979 - $1.70; 1978 - $1.10)	**121,826**	78,828
Total dividends	**124,025**	81,254
Balance, December 31	**$2,328,050**	$1,934,107

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements.

Statement of Changes in Consolidated Financial Position

	For the Year ended December 31	1979	1978
		(in thousands)	
Source of Funds	Net income	$ 508,142	$ 349,786
	Depreciation, depletion and amortization	421,248	387,596
	Deferred income taxes	202,713	107,362
	Minority interest in income of subsidiaries	355,756	197,684
	Funds from operations	1,487,859	1,042,428
	Sales of investments	14,877	63,661
	Issuance of long term debt	484,953	537,093
	Issuance of shares by subsidiaries	222,783	80,000
	Proceeds from disposal of properties	144,169	75,041
	Working capital of subsidiaries acquired and consolidated	14,872	127,093
		$2,369,513	$1,925,316
Application of Funds	Additions to properties	$1,219,866	$ 947,733
	Additions to investments	36,629	50,551
	Investment in subsidiaries acquired and consolidated	112,357	24,367
	Reduction in long term debt	371,607	290,261
	Reduction of minority shareholders' interest in subsidiaries	8,144	11,227
	Preferred shares purchased for cancellation	3,243	3,104
	Dividends declared	124,025	81,254
	Dividends paid minority shareholders of subsidiaries	126,861	67,642
	Sundries (net)	19,512	(2,734)
	Working capital deficit of subsidiary acquired and consolidated	58,931	—
	Increase in working capital	288,338	451,911
		$2,369,513	$1,925,316

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

Assets

December 31		1979 (in thousands)	1978
Current Assets	Cash and temporary investments, at cost (approximates market)	$ 1,214,634	$ 886,512
	Accounts receivable	1,264,260	1,107,721
	Rail materials and supplies, at cost or less	182,648	126,587
	Other inventories	922,528	703,324
		3,584,070	2,824,144
Insurance Fund, at cost	(approximate market $3,207,000; 1978 — $4,263,000)	3,645	4,566
Investments, at cost (Page 18)	Portfolio (market value $169,223,000; 1978 — $144,306,000)	152,502	152,668
	Other	305,655	286,425
		458,157	439,093
Properties, at cost (Page 18)	CP Rail	3,060,469	2,911,041
	CP Trucks	133,002	130,047
	CP Telecommunications	194,405	177,901
	CP Air	600,291	409,389
	CP Ships	534,338	521,481
	Soo Line Railroad Company	410,131	386,015
	Miscellaneous	20,765	18,733
	CP Investments Limited	5,458,179	4,677,688
		10,411,580	9,232,295
	Less: Accumulated depreciation, depletion and amortization	3,706,428	3,461,915
		6,705,152	5,770,380
Other Assets and Deferred Charges		251,369	217,748
		$11,002,393	$9,255,931

Auditors' Report to the Shareholders of Canadian Pacific Limited:

We have examined the consolidated balance sheet of Canadian Pacific Limited as at December 31, 1979 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for the year then ended. For Canadian Pacific Limited and for those other companies of which we are the auditors and which are included in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied upon the reports of the auditors who have examined the financial statements of the other subsidiaries, which include The Algoma Steel Corporation, Limited, Canadian Pacific (Bermuda) Limited, Cominco Ltd., Dominion Bridge Company, Limited, Great Lakes Forest Products Limited, Steep Rock Iron Mines Limited and Soo Line Railroad Company.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co., Chartered Accountants,
Montreal, Quebec,
March 7, 1980.

Consolidated Balance Sheet — Liabilities

December 31		1979	1978
		(in thousands)	
Current Liabilities	Bank loans	**$ 72,404**	$ 67,816
	Accounts payable and accrued liabilities	**1,514,543**	1,216,955
	Notes and accrued interest payable	**414,691**	312,180
	Income and other taxes payable	**248,446**	163,346
	Dividends payable	**84,561**	53,751
	Long term debt maturing within one year	**198,800**	247,809
		2,533,445	2,061,857
Deferred Liabilities		**83,578**	67,916
Insurance Reserve		**3,645**	4,566
Long Term Debt (Page 19)		**2,424,831**	2,206,405
Perpetual 4% Consolidated Debenture Stock (Page 20)		**292,549**	292,549
Minority Shareholders' Interest in Subsidiary Companies (Page 21)		**1,754,260**	1,310,844
Deferred Income Taxes		**922,137**	725,095
Shareholders' Equity	Preferred shares (Page 21)		
	Authorized — 22,579,158 shares of a par value of $10 each		
	Issued — 2,197,370 7¼% Cumulative Redeemable Series A shares (1978 — 2,515,311)	**21,974**	25,153
	Preference stock — 4% non-cumulative		
	Authorized — an amount not exceeding one-half the aggregate amount of Ordinary stock outstanding		
	Issued — £864,923 in amounts of £1 and multiples thereof	**4,209**	4,209
	— in amounts of $3 and multiples thereof	**11,539**	11,539
		15,748	15,748
	Ordinary stock		
	Authorized — 100,000,000 shares of a par value of $5 each		
	Issued — 71,662,280 shares	**358,311**	358,311
	Premium on stock	**113,626**	113,690
	Other paid-in surplus	**150,239**	139,690
	Retained income	**2,328,050**	1,934,107
		2,987,948	2,586,699
		$11,002,393	$9,255,931

Approved on behalf of the Board:
Ian D. Sinclair, Director
F. S. Burbidge, Director

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements.

Other Financial Information

CP Investments Limited — Net Income

	1979	1978
	(in thousands)	
Oil and gas		
Gross operating revenue	$ 423,905	$ 332,881
Expenses including income taxes	258,075	176,998
	165,830	155,883
Interest of outside shareholders	21,425	20,109
Net income	144,405	135,774
Mines and minerals		
Gross operating revenue	1,483,825	1,089,777
Expenses including income taxes	1,239,113	1,007,907
	244,712	81,870
Interest of outside shareholders	124,558	37,739
Net income	120,154	44,131
Forest products		
Sales and operating revenue	470,438	361,254
Expenses including income taxes	399,886	333,786
	70,552	27,468
Interest of outside shareholders	22,875	9,166
Net income	47,677	18,302
Iron and steel		
Sales and operating revenue	2,198,560	1,863,793
Expenses including income taxes	2,045,265	1,749,515
	153,295	114,278
Interest of outside shareholders	83,514	67,557
Net income	69,781	46,721
Real estate		
Gross rentals and other income	130,495	128,690
Expenses including income taxes	111,079	113,164
	19,416	15,526
Interest of outside shareholders	175	211
Net income	19,241	15,315
Hotels and food services		
Gross operating revenue	211,369	182,124
Expenses including income taxes	210,501	197,111
Net income	868	(14,987)
Finance		
Gross operating revenue	76,739	62,922
Expenses including income taxes	76,619	60,191
Net income	120	2,731
Other operations		
Gross operating revenue	305,799	208,290
Expenses including income taxes	296,615	200,857
Net income	9,184	7,433
Investment income		
Gross income	31,849	46,952
Expenses including income taxes	22,950	17,598
Net income	8,899	29,354
Income before interest of outside CPI shareholders	420,329	284,774
Interest of outside CPI shareholders	85,834	50,240
Net income	$ 334,495	$ 234,534

Other Financial Information

CP Rail Revenues

	1979	1978
	(in thousands)	
Freight revenue	**$1,395,717**	$1,235,376
Passenger services	**61,868**	28,873
Other railway	**43,320**	41,097
Coastal steamships	**24,435**	22,109
Government payments	**93,691**	100,980
	$1,619,031	$1,428,435

Depreciation, Depletion and Amortization Charged to Expenses

	1979	1978
	(in thousands)	
CP Rail	**$ 83,098**	$ 80,176
CP Trucks	**7,844**	7,347
CP Telecommunications	**11,151**	10,043
CP Air	**28,926**	24,760
CP Ships	**22,521**	22,739
Soo Line Railroad Company	**8,223**	8,947
Miscellaneous	**605**	513
CP Investments Limited		
Oil and gas	**54,030**	40,749
Mines and minerals	**80,932**	76,268
Forest products	**29,606**	25,641
Iron and steel	**69,822**	67,526
Real estate	**6,610**	5,555
Hotels and food services	**12,053**	13,954
Other operations	**5,827**	3,378
	$ 421,248	$ 387,596

Interest Expense

	1979	1978
	(in thousands)	
Long term debt and debenture stock	**$ 244,149**	$ 212,137
Short term debt	**60,968**	32,529
	$ 305,117	$ 244,666

Interest capitalized on funds borrowed to finance capital projects amounted to $12,596,000 (1978 — $8,589,000).

Income Taxes

	1979	1978
	(in thousands)	
Current	**$ 282,770**	$ 204,849
Deferred	**202,713**	107,362
	$ 485,483	$ 312,211

Other Financial Information

Investment Portfolio as at December 31, 1979

	Number of shares	Percentage of outstanding voting shares held by CPI	Cost	Approximate market value
			(in thousands)	
Common Shares				
MacMillan Bloedel Limited	2,849,600	13.40	$ 82,560	$ 76,939
MICC Investments Limited	404,875	5.66	2,293	4,454
Norcen Energy Resources Limited	271,700	1.13	3,804	8,662
Rio Algom Limited	1,331,956	9.86	30,823	42,463
Union Carbide Canada Limited	825,300	8.24	18,375	22,489
Other			4,220	5,666
			142,075	160,673
Preferred Shares			8,229	6,649
Bonds, Debentures and Notes			2,198	1,901
			$152,502	$169,223

Other Investments, at cost

	1979	1978
	(in thousands)	
Tara Exploration and Development Company Limited	**$ 26,903**	$ 26,903
Bethlehem Copper Corporation	**41,313**	41,313
Panarctic Oils Ltd.	**40,483**	39,119
Tilden Iron Ore Partnership	**41,890**	34,458
Northern Alberta Railways Company	**23,340**	25,340
The Toronto Terminals Railway Company	**9,182**	9,182
Other	**122,544**	110,110
	$305,655	$286,425

Properties and Accumulated Depreciation, Depletion and Amortization

	1979			1978
	(in thousands)			
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Net
CP Rail*	$ 3,060,469	$1,406,812	$1,653,657	$1,547,878
CP Trucks	133,002	57,159	75,843	76,273
CP Telecommunications	194,405	94,089	100,316	92,005
CP Air	600,291	230,032	370,259	208,209
CP Ships	534,338	108,393	425,945	429,159
Soo Line Railroad Company	410,131	120,820	289,311	269,351
Miscellaneous	20,765	2,593	18,172	16,761
CP Investments Limited				
Oil and gas	1,200,562	293,347	907,215	805,245
Mines and minerals	1,272,527	507,536	764,991	677,624
Forest products	640,343	233,134	407,209	321,989
Iron and steel	1,231,070	549,109	681,961	664,750
Real estate	817,475	37,876	779,599	483,166
Hotels and food services	204,891	53,332	151,559	144,189
Other operations	91,311	12,196	79,115	33,781
Total CP Investments	5,458,179	1,686,530	3,771,649	3,130,744
	$10,411,580	$3,706,428	$6,705,152	$5,770,380

*Includes $41,468,000 (1978 — $42,351,000) securities of leased railway companies.

Other Financial Information

Long Term Debt

	1979	1978
	(in thousands)	
Canadian Pacific Limited		
5% Collateral Trust Bonds due 1983	$ 31,536	$ 31,536
8⅛% Collateral Trust Bonds due 1985	27,750	27,750
8½% Collateral Trust Bonds due 1989	5,603	5,868
9¾% Collateral Trust Bonds due 1989	56,550	—
8⅞% Collateral Trust Bonds due 1992	43,291	45,546
10.35% Collateral Trust Bonds due 1994	67,159	74,250
11¼% Collateral Trust Bonds due 1995	60,000	60,000
5% - 10⅛% Equipment Trust Certificates due 1981-1993	108,295	120,661
Bank loans and sundry borrowings due 1980-1989	193,508	159,710
Canadian Pacific Air Lines, Limited		
Bank loans and sundry borrowing due 1980-1989	30,022	3,794
Canadian Pacific (Bermuda) Limited		
Mortgages due 1980-1986	60,913	74,023
8¼% Notes due 1984	33,814	37,807
Bank loan due 1985	20,822	20,720
Canadian Pacific Transport Company, Limited		
Bank loans	10,250	6,750
Soo Line Railroad Company		
4¼% - 9½% Equipment Trust Certificates due 1980-1994	81,810	77,185
Sundry — due 1982-2029	41,502	36,462
Canadian Pacific Investments Limited		
5⅛% - 5¼% Income Debentures due 1980	13,000	67,350
The Algoma Steel Corporation, Limited		
7⅜% - 11% Sinking Fund Debentures due 1987-1995	159,912	168,000
Floating Rate Income Debentures due 1999	106,880	—
8½% Series A Notes due 1991	20,500	21,000
Sundry — due 1980	11,333	41,255
Canadian Pacific Hotels Limited		
8⅝% - 11⅜% First Mortgage Sinking Fund Bonds due 1992-1995	47,300	49,000
Sundry — due 1980-1988	6,491	13,326
Canadian Pacific Securities Limited		
Bank loans due 1983-1985	3,210	28,210
8¼% - 10½% Debentures due 1984-1993	98,750	103,400
9¼% - 10⅛% Notes due 1980-1983	75,000	75,000
Canellus International N.V.		
Sundry — due 1980-2001	32,556	15,410
Cominco Ltd.		
Bank loans due 1980-1985	29,612	35,162
8½% - 10⅞% Sinking Fund Debentures due 1991-1995	114,486	118,952
Notes due 1982-1996	49,224	49,224
Subsidiaries of Cominco Ltd.	41,426	50,364
Carried forward	$1,682,505	$1,617,715

Other Financial Information

Long Term Debt
(continued)

	1979	1978
	(in thousands)	
Brought forward	**$1,682,505**	$1,617,715
Dominion Bridge Company, Limited		
Bank loans due 1980-1984	**20,682**	73,154
6½% - 10¼% Debentures due 1984-1986	**67,612**	35,570
Other notes payable 1980-1992	**47,707**	51,955
Great Lakes Forest Products Limited		
8% - 11¼% Sinking Fund Bonds due 1989-1995	**45,762**	50,146
8¾% Debentures due 1984	**19,603**	20,966
Sundry — due 1980-1989	**7,727**	35,580
Marathon Realty Company Limited		
Bank loans due 1980-1984	**94,949**	29,016
6½% - 11½% Sinking Fund Bonds due 1987-1998	**79,502**	80,803
Mortgages due 1980-2006	**232,895**	136,727
Sundry — due 1980-1991	**97,773**	23,356
PanCanadian Petroleum Limited		
Bank loans due 1980-1988	**129,355**	195,883
8⅛% - 9¾% Debentures due 1983-1992	**81,775**	83,000
Other companies	**15,784**	20,343
	2,623,631	2,454,214
Less: Long term debt maturing within one year	**198,800**	247,809
	$2,424,831	$2,206,405

Collateral Trust Bonds of Canadian Pacific Limited are secured by pledge of Perpetual 4% Consolidated Debenture Stock aggregating in principal amount $595,973,000 at December 31, 1979 (1978 – $521,921,000).

Of the aggregate bank loans of $539,256,000 included above, approximately $366,566,000 bear interest at rates which fluctuate (in certain cases within defined limits) with the lender's prime commercial rate.

Foreign currency long term debt translated at current rates at December 31, 1979 would be $1,267,075,000, which is $98,584,000 more than the amount at which it is carried above.

Annual maturities and sinking fund requirements for each of the five years following 1979 are: 1980 – $198,800,000; 1981 – $258,777,000; 1982 – $190,545,000; 1983 – $319,079,000; 1984 – $248,441,000.

Perpetual 4% Consolidated Debenture Stock

	Sterling	United States Currency	Canadian Currency	Total
	(in thousands)			
Issued	£46,757	$375,138	$285,835	$888,522
Less: Pledged as collateral	—	310,138	285,835	595,973
	£46,757	$ 65,000	$ —	$292,549

Sterling translated at Can.$4.86⅔ to the £1; U.S. dollars on the basis of one Canadian dollar equals one U.S. dollar. At December 31, 1979, translated at current rates, the net amount outstanding would be $198,085,000.

Notes to Consolidated Financial Statements

1. Preferred Shares

The series A preferred shares are redeemable at the Company's option at $10.50 per share on or before January 1, 1981; at $10.25 thereafter and on or before January 1, 1984; and $10.00 thereafter. In addition, shares may be purchased for cancellation at any time subject to certain price restrictions.

The Company is obligated to apply up to $2,000,000 in each year to the purchase of series A preferred shares, if available at a price not exceeding $10.50 per share plus costs of purchase. The price decreases to $10.25 after January 1, 1981 and $10.00 after January 1, 1984.

In 1979, 317,941 shares were purchased for $3,243,000; in 1978, 297,375 shares were purchased for $3,104,000.

2. Minority Shareholders' Interest in Subsidiary Companies

The minority shareholders' interest in subsidiary companies is comprised as follows:

	1979	1978
	(in thousands)	
PanCanadian Petroleum Limited	$ 72,612	$ 58,126
Cominco Ltd.		
$2.00 Tax deferred exchangeable preferred shares, series A	49,929	50,000
Floating rate preferred shares, series C	50,000	50,000
Common share equity	320,359	249,952
Great Lakes Forest Products Limited	69,160	43,258
The Algoma Steel Corporation, Limited		
8% Tax deferred preference shares, series A	59,813	60,000
Floating rate preference shares	80,000	80,000
Common share equity	260,604	222,381
Dominion Bridge Company, Limited	171,378	114,656
Steep Rock Iron Mines Limited	12,531	13,520
Canadian Pacific Investments Limited		
4¾% preferred shares, series A	694	793
Common share equity	461,093	251,114
Canadian Pacific Air Lines, Limited		
Floating rate preference shares, series A	50,000	30,000
Soo Line Railroad Company	91,784	84,671
Other	4,303	2,373
	$1,754,260	$1,310,844

The CPI preferred shares, series A, are redeemable at CPI's option at $20 per share.

3. Pensions

At December 31, 1979, there were unfunded liabilities, determined by actuarial evaluations, of $703,000,000 which is being funded by series of equal annual payments ending from 1980 to 2004, and $225,000,000 which is being funded by equal annual payments to 2027.

Pension expense, including current service costs and payments on account of unfunded liabilities, was $180,000,000 in 1979 (1978 – $157,000,000).

4. Commitments

At December 31, 1979 commitments for capital expenditures amounted to $1,344,000,000 and minimum payments under operating leases were estimated at $778,000,000 in the aggregate, with annual payments in each of the five years following 1979 of: 1980 – $74,000,000; 1981 – $66,000,000; 1982 – $62,000,000; 1983 – $55,000,000; 1984 – $45,000,000.

Algoma Steel, as a participant in an iron ore mining joint venture, is entitled to receive its proportionate share of production and is committed to pay its share of costs including minimum charges for principal and interest to cover the servicing of long term debt. Algoma's share of such minimum charges was $17,600,000 in 1979 and will average approximately $22,000,000 annually during the next five years.

Notes to Consolidated Financial Statements

5. Contingencies

The Company is a defendant in two suits by certain minority shareholders of Ontario and Quebec Railway Company, the railway of which the Company operates under a perpetual lease, claiming alleged misuse of the assets and also entitlement to the proceeds from the sale of Ontario and Quebec Railway Company's surplus lands and, in the alternative, substantial damages. The trial of these actions was concluded in December 1977 and the plaintiffs' actions succeeded in part. The Company has appealed the judgment but is of the opinion that even if upheld on appeal the judgment will not have a materially adverse effect on the financial condition of the Company. The plaintiffs have cross-appealed. The appeals have not yet been heard.

6. Acquisitions

In December 1979, Marathon acquired for cash all the outstanding shares of Canadian Freehold Properties Ltd., and certain additional property rights. The latter company carries on real estate activities similar to those of Marathon in both Canada and the United States. In August 1979, an indirectly wholly-owned subsidiary of Canellus International N.V., Processed Minerals Incorporated, acquired for cash the net assets of the Carey Salt and NYCO divisions of Interpace Corporation. Carey Salt is a major regional producer of salt in the United States, while the NYCO division produces wollastonite, a white silicate mineral. Also in August 1979, another wholly-owned subsidiary in the Canellus group, Baker Commodities, Inc., acquired through a cash merger, Corenco Corporation, which is engaged in rendering and in fruit processing operations.

These acquisitions were accounted for as purchases and consolidated from the dates of acquisition.

A summary of the assets acquired and the consideration given is as follows:

	Canadian Freehold Properties	Carey Salt and NYCO	Corenco
	(in thousands)		
Net assets acquired at values assigned thereto:			
Assets	$227,620	$ 33,929	$ 38,428
Liabilities	165,106	3,328	22,845
	62,514	30,601	15,583
Excess of purchase price over fair value of assets acquired, ascribed to goodwill	3,659	—	—
Cash consideration	$ 66,173	$ 30,601	$ 15,583

7. Restatements

During 1979 PanCanadian Petroleum Limited, a subsidiary of Canadian Pacific Investments Limited, restated its 1978 income tax provision to give effect to retroactive income tax regulation amendments providing for accelerated deduction of earned depletion. The 1978 figures have been restated to reflect this change for comparative purposes.

In accordance with a change in Canadian reporting requirements for regulated industries, the Soo Line Railroad Company, formerly accounted for on the equity basis, has been consolidated. The 1978 figures have been restated for comparative purposes.

In addition, certain other figures for 1978 have been reclassified to conform with the presentation adopted for 1979.

8. Subsequent Event

In early March 1980, CPI sold its interest in MacMillan Bloedel Limited and realized a net gain, after income tax, of approximately $13,000,000.

Five-Year Summary

	1975	1976	1977	1978	**1979**
	(in thousands)				
Net income from:					
CP Rail	$ 31,691	$ 51,097	$ 54,792	$ 63,490	**$ 93,653**
CP Trucks	3,171	2,099	1,183	2,158	**(1,861)**
CP Telecommunications	1,442	2,010	2,602	2,979	**6,005**
CP Air	(6,398)	(9,802)	3,340	19,998	**13,120**
CP Ships	14,277	3,321	(10,730)	(8,654)	**26,320**
Soo Line Railroad Company	5,897	8,889	11,151	14,815	**17,799**
Miscellaneous	4,200	15,055	7,522	20,466	**18,611**
CP Investments Limited	120,925	117,801	170,002	234,534	**334,495**
Income before extraordinary item	175,205	190,470	239,862	349,786	**508,142**
Extraordinary item	—	—	7,166	—	**—**
Net Income	$175,205	$190,470	$247,028	$349,786	**$508,142**
Per Ordinary share					
Income before extraordinary item	$ 2.40	$ 2.62	$ 3.31	$ 4.85	**$ 7.06**
Net income	2.40	2.62	3.41	4.85	**7.06**
Dividends	$ 0.845	$ 0.86	$ 0.95	$ 1.10	**$ 1.70**
Market price — High	$17⅞	$18⅞	$19¾	$25⅝	**$40¼**
(Toronto Stock Exchange) — Low	12⅝	13¼	16	16⅜	**23¾**
Price/earnings ratio — High	7	7	6	5	**6**
— Low	5	5	5	3	**3**

Geographic Distribution of Net Property Investment

at December 31, 1979	Properties at Cost, less Depreciation	Percent of Total
	(millions)	
Canada		
Atlantic Provinces	$ 56	1%
Quebec	372	6
Ontario	1,477	22
Manitoba	142	2
Saskatchewan	248	4
Alberta	1,095	16
British Columbia	906	13
N.W.T., Yukon & Offshore	121	2
Transportation Equipment	920	14
	5,337	80
Outside Canada		
United States	869	13
Other	97	1
Ocean Ships	402	6
	1,368	20
Total	$6,705	100%

Stock Transfer Agents

The Royal Trust Company,
1648 Hollis Street,
Halifax, N.S. B3J 1V7;

Brunswick House,
1 King Street,
Saint John, N.B. E2L 1G1;

630 Dorchester Boulevard West,
Montreal, P.Q. H3B 1S6;

Royal Trust Tower,
Toronto-Dominion Centre,
Toronto, Ontario M5W 1P9;

287 Broadway,
Winnipeg, Manitoba R3C 0R9;

1862 Hamilton Street,
Regina, Saskatchewan S4P 2B8;

700 The Dome Tower,
Toronto-Dominion Square,
333 – 7th Avenue S.W.,
Calgary, Alberta T2P 2Z1;

Royal Trust Tower,
Bentall Centre,
555 Burrard Street,
Vancouver, B.C. V7X 1K2.

Bank of Montreal Trust Company,
2 Wall Street,
New York, New York 10005.

Deputy Secretary,
Canadian Pacific Limited,
50 Finsbury Square,
London, England EC2A 1DD.

Stock Holdings

The number of registered holdings of the voting capital stock of the Company at December 31, 1979 was 64,432.

The distribution by countries of total voting rights of the Ordinary and Preference Stock at that date was as follows:

Canada	64.57%
United States	22.49
United Kingdom	6.18
Other Countries	6.76
	100.00%

Stock Listings

Debenture Stock (Sterling) listed on:
London, Eng. Stock Exchange

Debenture Stock (U.S. Currency) listed on:
New York Stock Exchange

Preference Stock (Sterling) listed on:
Montreal, Toronto, Vancouver and
London, Eng. Stock Exchanges

Preference Stock (Canadian Dollar) listed on:
Montreal, Toronto, Vancouver and
London, Eng. Stock Exchanges

Preferred Shares, Series A listed on:
Montreal, Toronto, Vancouver and
London, Eng. Stock Exchanges

Ordinary Stock listed on:
Montreal, Toronto, Vancouver, New York and
London, Eng. Stock Exchanges

Shareholders having inquiries should write to:

J. C. Ames,
Vice-President and Secretary,
Canadian Pacific Limited,
P.O. Box 6042, Station A,
Montreal, Canada
H3C 3E4

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser au vice-président et secrétaire, Canadien Pacifique Limitée, C.P. 6042, succursale A, Montréal, Canada H3C 3E4

Canadian Pacific Limited

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